



Office of Internal Audit

800 W. Campbell Rd. SPN 32, Richardson, TX 75080
Phone 972-883-4876 Fax 972-883-6846

September 8, 2016

Dr. Richard Benson, President
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the Confucius Institute as part of our fiscal year 2016 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objective of our audit was to determine if the Confucius Institute at UT Dallas complied with the terms of the agreement with the Confucius Institute Headquarters in China as well as UT Dallas policies and procedures related to the contract terms.

Overall, we conclude that the Confucius Institute at UT Dallas has complied with the terms of the agreement with the Confucius Institute Headquarters in China and most UT Dallas policies and procedures related to the contract terms. The attached report details recommendations that will help improve compliance with contract administration, youth camps, and receipting.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Institutional Chief Audit Executive

UT Dallas Responsible Parties:

Dr. Dennis Kratz, Dean of the School of Arts and Humanities
Dr. Ming Gu, Director, Confucius Institute

Members of the UT Dallas Institutional Audit Committee:

External Members:

Mr. Bill Keffler
Mr. Ed Montgomery
Ms. Julie Knecht
Dr. Hobson Wildenthal, Executive Vice President and Provost
Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Mr. Brian Dourty, Interim Chief Information Officer
Dr. Bruce Gnade, Vice President for Research
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
Dr. Gene Fitch, Vice President for Student Affairs
Dr. Inga Musselman, Senior Vice Provost
Mr. Timothy Shaw, University Attorney

The University of Texas System:

System Audit Office

State of Texas Agencies:

Legislative Budget Board
Governor's Office
State Auditor's Office
Sunset Advisory Commission



Executive Summary

Confucius Institute, Report No. 1701

Audit Objective and Scope: The objective of our audit was to determine if the Confucius Institute at UT Dallas complied with the terms of the agreement with the Confucius Institute Headquarters in China as well as UT Dallas policies and procedures related to the contract terms for fiscal years 15 and 16, to date.

The following is a summary of the audit recommendations by risk level. See the Appendix for risk level definitions.

Recommendation	Risk Level	Estimated Implementation Date
(1) <i>Improve Contract Administration</i>	High	November 30, 2016
(2) <i>Comply with Background Check Policy</i>	Medium	July 31, 2016
(3) <i>Enhance Receipting Procedures</i>	Medium	November 30, 2016
Responsible Vice President: Dr. Hobson Wildenthal, Executive Vice President and Provost	Responsible Parties: Dr. Dennis Kratz, Dean of the School of Arts and Humanities Dr. Ming Gu, Director of the Confucius Institute	
Staff Assigned to Audit: Project Leader: Toni Stephens, CPA, CIA, CRMA, Institutional Chief Audit Executive; Staff: Ray Khan, Staff Auditor; Parita Shah and Jenny Wang, Student Interns		



Table of Contents

Background	4
Audit Objective	4
Scope and Methodology.....	5
Audit Results and Management’s Responses.....	5
Audit Recommendations	5
(1) <i>Improve Contract Administration</i>	6
(2) <i>Comply with Background Check Policy</i>	7
(3) <i>Enhance Receipting Procedures</i>	8
Conclusion	9
Appendix: Priority Findings and Risk Matrix	10



Background

The [Confucius Institute](#) was established at UT Dallas in 2007 and is dedicated to the learning of Chinese language and culture. Services provided by the Institute include teaching Chinese language and culture courses, training and certifying Chinese teachers, supporting local schools by establishing Confucius Classrooms, organizing Chinese proficiency tests, conducting academic research related to Chinese culture, holding international conferences and symposiums, and conducting various events, such as summer camps, exhibitions, and performances.

Information Relating to the Confucius Institute	
FY 15 Expenses	\$294,952
FY 15 Revenues	\$346,560
Confucius Classrooms	10
Faculty and Staff	4
Credit Courses	Chinese Language, Calligraphy
Non-credit courses	Chinese language and painting, Tai Chi, Kung Fu

The Confucius Institute is one of over 500 Confucius Institutes around the world and is funded based on an agreement with the Confucius Institute Headquarters (Hanban) and UT Dallas. Approximately 93% of the revenues are from Hanban, and 7% are generated from events held by the Institute. UT Dallas' obligations under the agreement include providing facilities and administrative personnel and managing the account.

Selected as "Confucius Institute of the Year" in 2014, the Institute is housed within the School of Arts and Humanities, reporting to the Dean.

The School supports the Institute by providing funding for the salaries of the Institute administrators as well as personnel to assist with financial and budgetary responsibilities. Additionally, a Board of Advisors, consisting of the President ad interim, the Acting Provost, the Vice President for Administration, the Dean of the School of Arts and Humanities (Chair), the Director of the Institute, and six members from South East University in China, is responsible for overseeing the management of the Institute. The Board meets once a year to discuss the budget, annual plan, and major projects.

Audit Objective

The objective of our audit was to determine if the Confucius Institute at UT Dallas complied with the terms of the agreement with the Confucius Institute Headquarters in China as well as UT Dallas policies and procedures related to the contract terms.



Scope and Methodology

The scope of this audit was fiscal years 2015-16, to date, and our fieldwork concluded on July 18, 2016. To satisfy our objectives, we performed the following:

- Gained an understanding of the Institute, reviewing the agreement, five year development plan, budgets, and other policies and procedures within the Confucius Institute’s operations.
- Tested the processes and controls within the Confucius Institute relating to the contract terms, including compliance and budgetary and financial controls over:
 - Revenues
 - Summer Camps
 - Compliance with the terms of the contracts
 - Expenses
 - Budget
 - Credit and non-credit courses

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor’s *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

Audit Results and Management’s Responses

Controls

Our audit work indicated that the following controls currently exist:

- Expenses comply with the terms of the contract and with UT Dallas policies and procedures.
- Professors and instructors for courses related to the Institute are being properly credentialed.
- Detailed budgets are prepared and submitted to the Hanban headquarters for their review.
- A five year plan was developed, outlining goals and objectives for the Institute.

Audit Recommendations

Priority Findings – UT System: A UT System priority finding is defined by the UT System Audit Office as: “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”¹ We have no **UT System Priority Findings** resulting from this audit.

¹ The appendix defines the risk levels for all internal audit recommendations.



However, although the above controls are in place, opportunities exist to improve compliance with UT Dallas procedures by implementing the recommendations outlined below.

(1) **Improve Contract Administration**
Risk Rating: High ★

A contract agreement between UT Dallas and Hanban was signed in 2007, broadly outlining the purpose of the agreement and general responsibilities of each party. Agreements between UT Dallas and local schools to set up Confucius Classrooms outline the purpose and responsibilities regarding the Confucius Classrooms. These agreements are similar but not consistently worded and generally provide for funds that are initially gifted to UT Dallas then subsequently subcontract to the schools.

Contract administration procedures, such as monitoring, exist to help ensure that the contractor is performing all duties in accordance with the contract and for the institution to be aware of and address any developing problems or issues. Without adherence to the procedures, contracted services may not be provided, and errors, loss, and potential abuse could occur. Many of the agreements, including the agreement between UT Dallas and Hanban, were signed prior to the formation of the UT Dallas Contract Administration Office. UT Dallas contract procedures are now listed at the [Contract Administration](#) website.

We reviewed the contract between UT Dallas and Hanban as well as a sample of contract agreements between the Confucius Institute and the local schools, noting the following:

- The contract with Hanban was signed in 2007 and renews automatically every five years. The partner university on the contract between UT Dallas and Hanban has not been updated to represent the current partnership in place. The contract also does not have a strict termination date.
- Three of the five local school contracts we reviewed did not include a contract termination date.
- None of the contracts contained the right to audit clause for the university.
- Only two of the contracts stated the exact amount of funds that will be provided by Confucius Institute.
- Four of the five contracts were signed by the Dean of the School of Arts and Humanities who did not have the appropriate authority to sign a contract on behalf of UT Dallas.
- Although Hanban performs annual self-assessments of the Confucius Classrooms, procedures are not in place for monitoring the expenditures and activities of the Confucius Classrooms.



Recommendation: The Confucius Institute should work with Contract Administration to ensure that all contracts between the Confucius Institute and the local schools should be reviewed, revised, and clarified as necessary, and monitoring procedures should be implemented over the contracts with the local schools to document compliance.

Management's Response and Action Plan: CI has already started the process of renewal of all the contracts. All contracts will be sent to UTD Contract Administration for review, approval and signatures.

Estimated Date of Implementation: November 30th, 2016

Person Responsible for Implementation: Sharon Yang (assistant director)

(2) **Comply with Background Check Policy**

Risk Rating: Medium ★

State of Texas law² mandates policies and procedures surrounding the safety of minors on campus. UT Dallas summer camp procedures are outlined at <https://www.utdallas.edu/summercamps/camp-resources.html>. Procedures include requirements for various participant forms, and child protection training and criminal background checks for camp staff, counselors, and volunteers. Noncompliance with these policies and procedures could increase the safety risks for minors attending university camps.

The University of Texas System Policy UTS124, [Criminal Background Checks](#), and UT Dallas local policy UTDBP3000, [Criminal Background Checks Policy](#), outline the policies and procedures surrounding criminal background checks. Section 2.5 (c) of UTS124 states that “Youth camps shall ensure that for all employees and final applicants who will work at the camp, and all volunteers and student observers, who will regularly or frequently be at the camp are subject to a criminal background check each year.”

We tested for compliance with summer camp procedures and noted that criminal background checks were not completed for the university employees serving as camp counselors. It was assumed that since they were university employees a background check was not necessary.

Recommendation: The Confucius Institute should ensure compliance with UTS 124 by running an annual criminal background check on all camp instructors.

Management's Response and Action Plan: The management team has realized the misunderstanding about criminal background check on all camp instructors. It has clearly been understood that “all employees and final applicants who will work at the camp, and all volunteers and student observers, who will regularly or frequently be at the camp are

² <https://legiscan.com/TX/text/SB1414/id/296728>



subject to a criminal background check each year.” The management team will ensure compliance with this regulation in the future.

Estimated Date of Implementation: July 31st, 2016

Person Responsible for Implementation: Sharon Yang (assistant director)

(3) **Enhance Receipting Procedures**

Risk Rating: Medium ★

During FY 2015, the Confucius Institute received \$346,560 in revenues from either external sales or from gifts. UTDBP3040, [Cash Handling Policy](#), outlines receipt processes and procedures for cash and checks collected. Without effective controls over receipting and compliance with the policy, the risk of error, loss, or abuse is increased.

The Confucius Institute holds a [summer camp](#) each year for children to build their Chinese language skills and develop talents in Calligraphy, painting, Kung Fu, Tai Chi, folk dances, and crafts. Campers register and pay for the camps either via the UT Dallas Marketplace online store, or by check submitted to the Institute. We tested the revenues and receipting function within the department for compliance with UT Dallas’ cash handling procedures and noted the following:

- Checks received for the Gong Fu Summer Camp are being deposited into the gift account for the Confucius Institute rather than the external sales and services account.
- Department checks are not being deposited within the proper amount of time according to the cash handling policy. Deposits totaling \$200 or more should be deposited on a daily basis.
- A check log is not being used to track the receipt and deposit of checks for the department as required by the policy under “Cash Handling (m)”.
- Employees handling receipts did not take cash handling training as required by the policy under “Training.”

Recommendation: Cash handling training should be taken, revenues for camps should be deposited into the external sales and services account, and the Institute should develop a process to ensure compliance with the cash handling policy.

Management’s Response and Action Plan: *Staff who are handling cash will attend cash handling courses in person or online to ensure to follow cash handling polices and handle cash properly.*

Estimated Date of Implementation: November 30th, 2016

Person Responsible for Implementation: Sharon Yang (Assistant Director), Michelle Lemon (Administrative Services Officer I)



Conclusion

Based on the audit work performed, we conclude that the Confucius Institute at UT Dallas has complied with the terms of the agreement with the Confucius Institute Headquarters in China and most UT Dallas policies and procedures related to the contract terms. Implementation of the recommendations contained in this report will help improve compliance with contract administration, youth camps, and receipting.

We appreciate the courtesy and cooperation received from the management and staff in the Confucius Institute and the School of Arts and Humanities during this audit.



Appendix: Priority Findings and Risk Matrix

Definition of Risks

Risk Level	Definition
Priority	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
High	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
Medium	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
Low	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.